A CAHNERS PUBLICATION JUNE 1992

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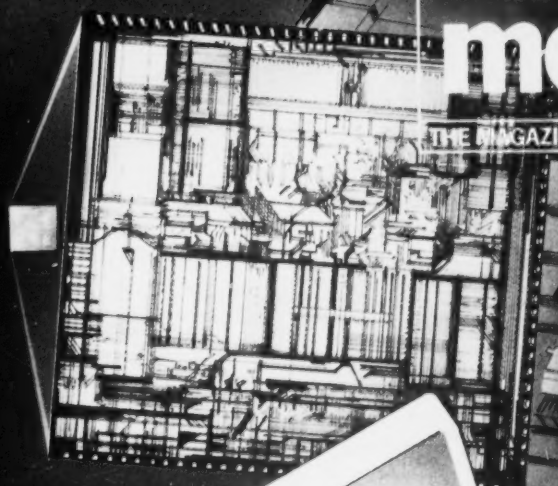
THE MAGAZINE OF THE PRINTING INDUSTRY



Mid-Range Systems Miniaturization Squeezes Market

Small Shop Workshop: Creating an Ad Brochure

Print Target Market: Business Services

VOLUME 64, NUMBER 6

A CAHNERS PUBLICATION JUNE 1992

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graphic arts monthly

THE MAGAZINE OF THE PRINTING INDUSTRY

FEATURES

page 56

Mid-Ranges Face Squeeze Play

By Earl Wilken and Marigrace Masolli

Today's mid-range CEPS systems are being squeezed by both the high-end and desktop.

40

Proof of Faster Color

This trade shop prospers with a proofing system that saves clients time and money.

46

On The Cover: Illustration by Iana Breuning

Print Target Market: Downsizing Aids Service Work

These enterprises provide various types of services for other businesses.

47

Self-Promotion Key to Success

By Lisa Cross

Potential clients want to see effective demonstrations of the printer's capabilities.

56

Heatset Stirs Sales

New plate technology makes a cleaner, productive press.

62

PREPRESS IMAGING

The Seybold Challenge

By Earl Wilken

67

The Desktop Color War is Over

By William R. Givens

68

Fast Tracking

78

page 68

Contents continues on page 5

graphic arts monthly

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UPFRONT

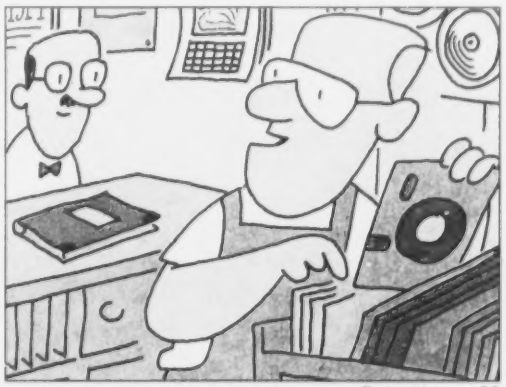
Mailbox	8
Editorial	10
Printer's Pulse	13
Business Outlook	14
Market Watch	16
Graphic Arts Index	16
Washington Briefs	18
News	20
Mergers & Acquisitions	22
Calendar	29
People	33
Companies	39

COLUMNISTS

Selling Yourself George Griffin	80
Training Aids Bridget Kinsella Arajs	89
Marketing Dick Gorelick	90
Type & Design Michael Karol	92
Paper Michael J. Ducey	94
Estimating Gerald A. Silver	99
Ink Theodore Lustig	100

DEPARTMENTS

New Products	104
Literature	1114
How'd They Print That?	117
Classified	118
Advertisers Index	144



Estimating, p. 99

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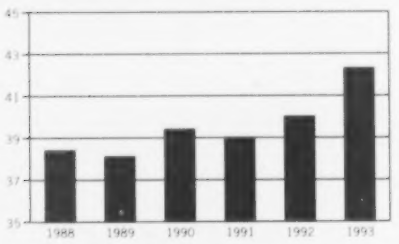
Paper Producers Cut Expansion

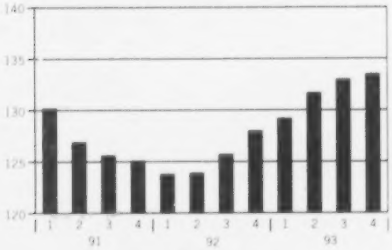


Total Paper Production
millions of short tons
Source: American Paper Institute Forecast: Cahners Economics

So far this year, total paper production has matched its year-ago levels on a seasonally adjusted basis. A pickup in paper consumption was expected to immediately follow the rebound in the general economy. But, demand has not responded as was expected. As a result, production levels are expected to rise only 2.6% this year. Given the struggles of the past two years and the increasing environmental demands, paper producers have reduced their future expansion plans.

Much of the planned expenditures are targeted at improving and rebuilding existing facilities. In particular, producers need to revamp operations to handle the increased usage of recovered paper in the papermaking process. Currently, waste paper represents nearly 28% of the raw materials used. The paper industry has set a goal of 40% recovery by 1995. Total paper capacity is expected to increase 2.4% per year, with most of the gains coming from coated and uncoated free sheet.

Paper Prices Continue to Fall



Paper Price Index
1982 = 100
Source: Bureau of Labor Statistics Forecast: Cahners Economics

The good news continues for printers and other purchasers of paper—supply is plentiful and prices are favorable. Unless demand starts to increase at a much faster pace than can be supplied by the new capacity plans, paper prices will remain in check. Paper prices have been dropping steadily since early 1991 and the declines continue. In the first quarter of 1992, the producer price index for paper fell 4.9% below the same period last year to 123.1 (1982 = 100).

This is the lowest index value since the middle of 1988. As shown in the table below, transaction prices dropped for every major paper category. Indeed, for many paper grades 1992 will represent the third consecutive year of declines in prices. The paper price index is expected to bottom out this year and begin to slowly rebound by year-end. Cahners projects a 1.3% loss in 1992, followed by a 5.2% rise in 1993.

This month's datatable highlights the continued drop in paper prices across the board. First-quarter 1992 marked the fifth quarter of price declines for many paper grades. Prices will remain low as long as demand is low and supply is plentiful. Shipments of all paper types, with the exception of uncoated free sheet, continue to struggle. Publishers are shopping around for the best deals on paper and uncoated grades have increased in popularity.

PAPER INDUSTRY INDICATORS

				Annual Percent Change		
Shipments (1)	**Q1/91**	**Q4/91**	**Q1/92**	**1990**	**1991**	**1992**
Coated paper	1788	1839	1792	3.9	-2.2	0.8
Uncoated groundwood	426	446	399	0.4	-0.8	-0.3
Uncoated free sheet	2729	2940	2801	4.1	0.3	3.1
Transaction Prices (2)						
Newsprint–30lb., East	$590	$480	$429	-2.3	-4.6	-13.9
Directory-uncoated groundwood, 22.5lb., white	770	750	750	-4.0	-2.1	2.3
Supercalendered-uncoated groundwood, 34lb.	800	780	760	-2.7	-1.6	-2.5
Offset–uncoated groundwood	635	607	600	-3.1	-3.6	-0.6
Offset–uncoated, white, 50lb.	770	717	643	-4.7	-13.1	-6.5
Coated–No.1, 70lb.	1607	1552	1540	-0.1	-2.0	-0.9
Coated–No.3	1170	1030	1000	0.2	-13.1	-3.4
Coated–No.5, 34lb. roto	915	897	880	-3.7	-4.2	-0.9
Bond–uncoated white, No.1, 20lb.	1090	1077	1070	-0.7	-0.7	-0.3
Bond–uncoated white, No.4, 20lb.	860	747	640	-10.1	-16.6	-10.2

(1) Thousands of short tons. American Paper Institute. (2) Dollars per ton. *Purchasing* magazine's Transaction Pricing Service. All forecasts by Cahners Economics.

graphic arts monthly

Downsizing Aids Service Work

In compiling its list of major consumers of commercial printing, DRI/McGraw-Hill aptly refers to this one as "miscellaneous business services." Miscellaneous it certainly is; at first glance, this "industry" looks like a convenient catchall for the Department of Commerce.

At second glance, however, a pattern begins to emerge. These enterprises all provide services of one kind or another for other businesses, much like the printing industry. Indeed, while the Department of Commerce classifies printing as a manufacturing industry, and thus separate from business services, there are a number of graphic arts-related businesses in the collection of SICs that make up Business Services: mailing, direct-mail advertising, photocopying, and commercial art and graphic design.

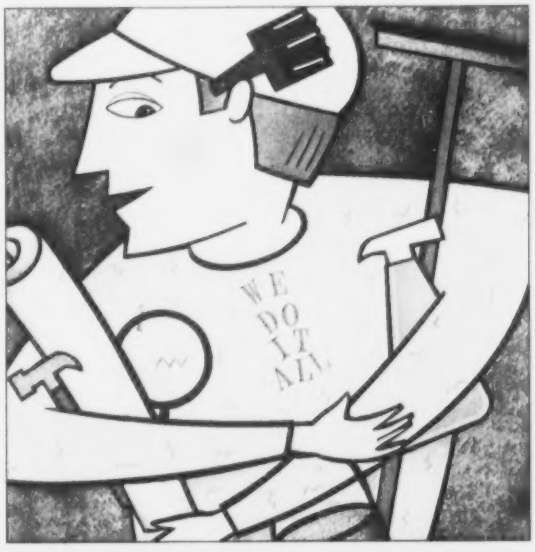
As business owners and managers, printers have occasion at one time or another to buy services from most of the types of vendor we are discussing. And they return the favor. Printed materials are vital to any service business, and these companies buy $8.75 billion of commercial printing a year.

Peter Johnston
Special Projects Manager

These enterprises provide various types of services for other businesses.

The health of these businesses varies from field to field, and are affected differently by the economy; collection agencies, like bankruptcy lawyers, often flourish in a recession, and business services as a whole have benefited from the recent trend toward "downsizing" (i.e., layoffs and firings) in American business. Small private firms have replaced the functions of what were once corporate departments.

That being the case, we might expect to see the Business Services segment doing rather well these days. And in general it is; the entire industry group was up in revenues 8.5% for 1991 over 1990, well ahead of the general economy. Direct mail advertising was up 10.9%, and volume for employment agencies increased 19.7% for the year. Some were less fortunate; ad agency revenues were up only 3.5%, and both detective agencies (-0.7%) and photofinishing laboratories (-2.4%) showed declines for the period.



Anne Gusman

Each article in this yearlong series also contains news on the commercial printing industry in one geographic region; this month we profile the West North Central (Minnesota, Iowa, Missouri, Nebraska, Kansas, and the Dakotas).

Reprints of this article may be ordered from Cathy Dionne, Cahners Publishing, Reprint Department, 1350 E. Touhy Ave., Des Plaines, IL 60018; telephone (800) 523-9654. Canadian readers please call (708) 390-2777.

Business Services at a Glance

Business services is primarily comprised of small firms: the average number of employees per establishment is 17, and the mean number of employees is closer to seven or eight. Though dwarfed by industries like retailing (12 million employees) or restaurants (six million), business services, with a quarter of a million establishments and well over four million employees, is one of the larger sectors of the U.S. economy.

Total Establishments: 250,527
Employees: 4,385,365
Total Annual Payroll: $77,999,320

Source: U.S. Department of Commerce, County Business Patterns

Trends & Forecasts, Selected Business Services

Business services is not one industry but a conglomeration of industries with certain characteristics of their customer base in common. As we can see from a glance at the accompanying statistics, growth in sales—not, perhaps, the best measurement of business health, but the most widely available—varied widely over the period on 1990 to 1991. Accounting and consulting flourished, while advertising barely matched inflation.

Receipts, $ millions

Business Service	*1987*	*1988*	*1989*	*1990*	*1991*
Accounting, Auditing, & Bookkeeping	$26,612	$29,695	$33,303	$37,500	$42,250
Advertising	16,803	18,340	19,023	19,944	21,000
Executive Search	2,200	2,500	2,900	3,250	3,650
Management, Consulting, & Public Relations	44,252	52,528	57,324	63,000	69,500

Percentage Increase, Year-to-Year

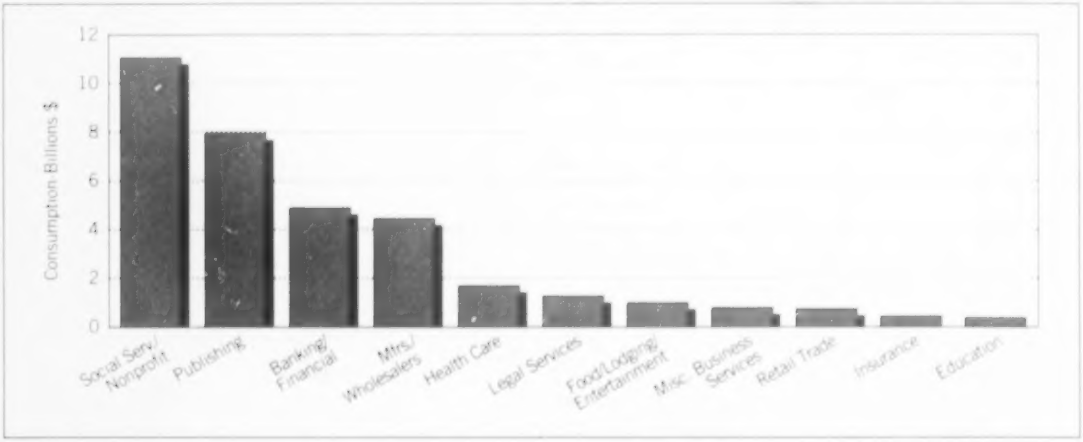
Business Service	*1988-89*	*1989-90*	*1990-91*
Accounting, Auditing, & Bookkeeping	12.2%	12.6%	12.7%
Advertising	3.7%	5.1%	5.5%
Executive Search	16.0%	12.1%	12.3%
Management, Consulting, & Public Relations	9.1%	9.9%	10.3%

Source: U.S. Industrial Outlook (Dept. of Commerce)

Charts and graphs by Annabelle Carter

Ranking of the Print Target Markets

Industries to be covered in the Print Target Markets series in 1992 were selected from a DRI/McGraw-Hill listing of the largest purchasers of goods and services from commercial printers. This list was further refined by the editors, primarily by the elimination of industries that are not logical targets for small to medium-size commercial printers. The resulting list represents more than a third of all business-to-business printing sales.

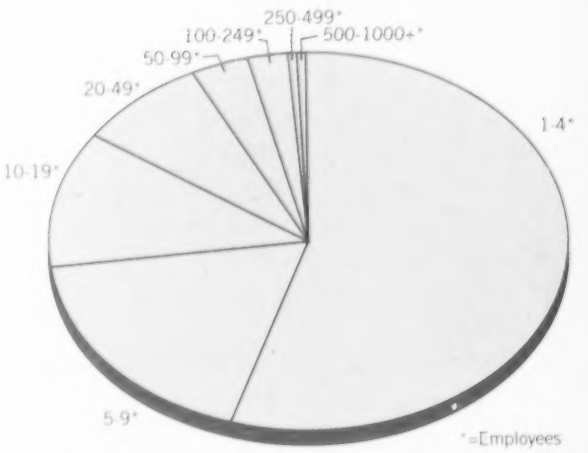


Business Services Companies by Employee Size

This industry group is structured almost exactly like the printing industry. Fully 85% of business services firms have fewer than 20 employees, and 73.3% have fewer than 10. At the other end, fewer than 1% have over 250 employees. These are small, privately held, entrepreneurial ventures with working management. Sound familiar?

1-4 Employees	137,981	55.1%
5-9 Employees	45,486	18.2%
10-19 Employees	29,424	11.7%
20-49 Employees	20,170	8.1%
50-99 Employees	8,704	3.5%
100-249 Employees	6,265	2.5%
250-499 Employees	1,727	0.7%
500-999 Employees	569	0.2%
1000+ Employees	201	0.08%

Source: U.S. Department of Commerce, County Business Patterns



Industry Structure

Business services, though a somewhat ragtag collection, break down logically into the different areas in which one company might employ another to do something for it: publicizing (advertising and PR), paper handling (mailing, reproduction, stenographic), counting and collecting money (accounting, collections), assessing risk (credit reporting), keeping up the physical plant (services to buildings), finding employees (personnel supply services), creating and maintaining computer systems (computer and data processing services, and, inevitably, miscellaneous business services. This latter category includes detectives (including fingerprinters, guard dog services, armored cars, etc.), news syndicates, photofinishing laboratories, and anything else you can imagine, from mapmakers to racetrack cleaners.

Finally, there is a large (nearly 20% of the total industry group) segment identified only, in the Commerce Department's rather hermetic fashion, as "Business services, not elsewhere classified." This is the repository for very, very specialized enterprises—writers of Amiga-based business software, crash numbering machine repairmen, clarinet mechanics, etc.

Category	Number of Establishments	Category	Number of Establishments
Advertising	17,909	Equipment Rental & Leasing	24,036
Credit Reporting and Collection	6,687	Personnel Supply Services	24,421
Mailing, Reproduction, Stenographic	25,249	Computer and Data Processing Services	37,894
Services to Buildings	44,036	Miscellaneous Business Services	60,468

Source: County Business Patterns

Regional Distribution–Business Services Revenues

Region	1990 Receipts ($ million)	%, U.S. Total
New England	$20,708.1	6.0%
Mid-Atlantic	68,336.7	19.8%
East North Central	48,664.0	14.1%
West North Central	18,982.4	5.5%
South Atlantic	49,699.4	14.4%
East South Central	12,424.9	3.6%
West South Central	39,690.5	11.5%
Mountain	18,637.3	5.4%
Pacific	67,991.6	19.7%

Sources: U.S. Statistical Abstract supplements, 1991 Census of Services, Department of Commerce

Key to Regions

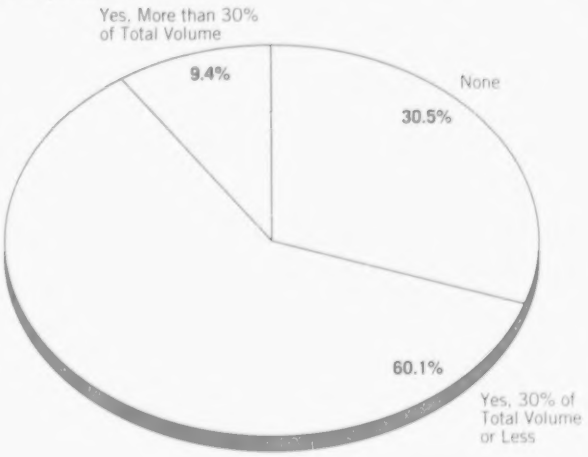
The nine geographic regions, as referred to throughout this survey:

New England (NE): Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont. **Mid-Atlantic (MA):** New Jersey, New York, Pennsylvania. **South Atlantic (SA):** Delaware, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, Washington, D.C., West Virginia. **East South Central (ESC):** Alabama, Mississippi, Kentucky, Tennessee. **East North Central (ENC):** Illinois, Indiana, Michigan, Ohio, Wisconsin. **West North Central (WNC):** Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota. **West South Central (WSC):** Arkansas, Louisiana, Oklahoma, Texas. **Mountain (M):** Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming. **Pacific (P):** Alaska, California, Hawaii, Oregon, Washington.

Does Your Firm Do Work for Business Services Companies?

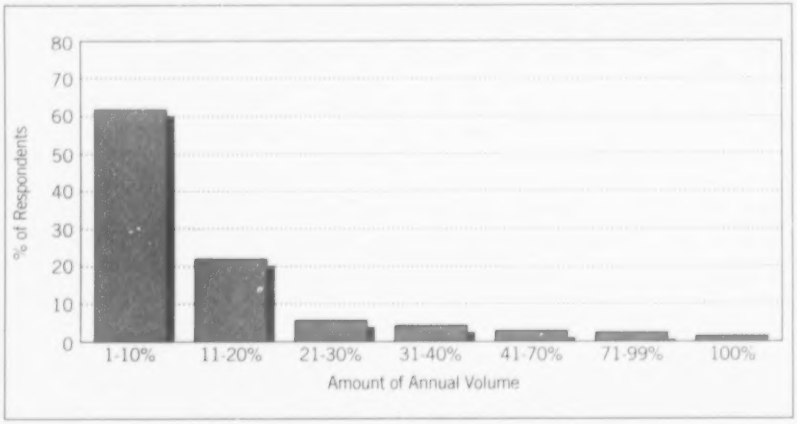
To measure the breadth of the impact of the business services industry on commercial printing, small and medium-sized commercial printers across the country were surveyed for this article. Printers to be surveyed were selected on a random (every nth name) basis from the current circulation list of Graphic Arts Monthly. Almost 70% of printers responding to the survey reported doing at least some work for business services companies.

Almost all the printing generated by this industry is captured by commercial shops. Unlike other industries we have studied, such as insurance and education, in-plant printing is a negligible (indeed, almost nonexistent) factor in business services.

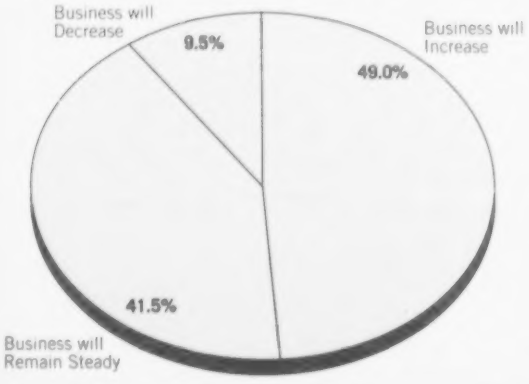


If So, How Much of Your Annual Volume is for Business Services?

Over 13% of the printers surveyed for this article reported deriving 30% or more of their annual revenues for business services companies. Given the number and ubiquity of these firms, this is not surprising; in fact, the figure (61.7%) for printers obtaining 10% or less of their revenues from this source seems a bit surprising. Less surprising is the fact that for about 4% of those responding, business services customers provide more than 70% of sales; just over 1% derive all their revenues from this source.



Over the next 12 months, what do you feel will happen to your share of business here?



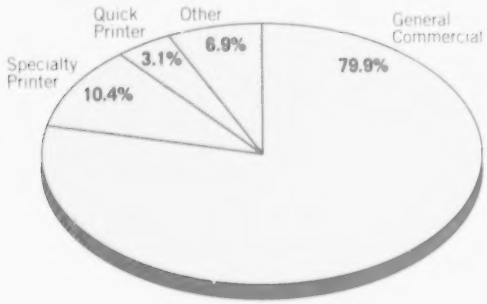
Printer-Supplied Products for Business Services

As with all the other industries studied, practically all commercial printers doing work for business services companies report printing stationery and business forms for them. Advertising printing is also brisk for this segment, which in virtually every specialty is quite competitive. It is worth noting that over a third of printers reporting perform some non-printing services for these customers.

Stationery and Business Cards	81.3%
Business Forms	75.2%
Advertising Sheets, Pamphlets, or Brochures	69.2%
Unbound Non-Advertising Material	42.1%
Miscellaneous Non-Printing Services	34.1%
Bound Publications	22.4%

Regional Update/West North Central

Type of Company

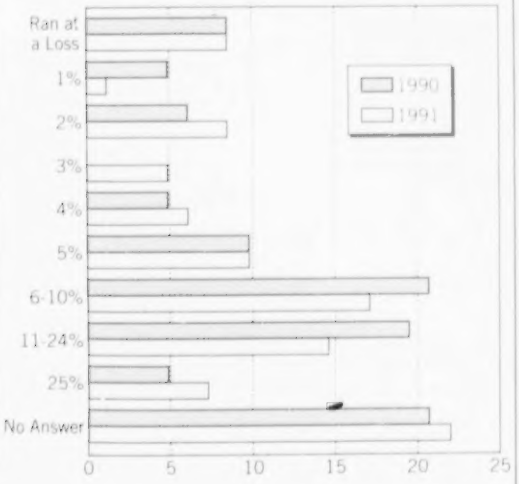


Profile of Respondents

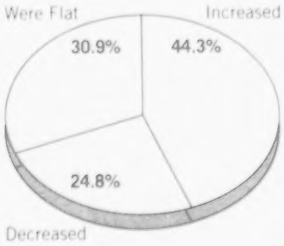
Commercial printers in the upper Midwestern states responding to a recent mail survey reported year-over-year changes in their annual sales, profitability, and operating capacity. They also revealed how they perceived the outlook for business in their area.

Gross Sales in 1991		# of Employees	
Less than $500,000	67.9%	1-4	48.8%
$500,000-749,999	11.3%	5-9	34.1%
$750,000-999,999	3.8%	10-19	11.0%
$1 million-2,499,999	11.3%	20 or more	4.9%
$2,500,000-4,999,999	1.9%		
$5 million +	0%		

Profit as a Percent of Gross Sales, 1990



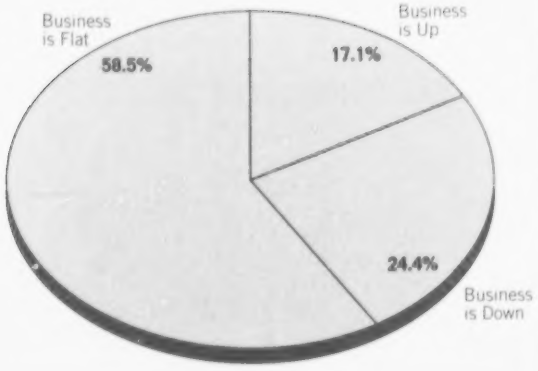
How Sales Changed, 1990 to 1991



1990 to 1991	
Sales Increased	42.7%
Sales Decreased	23.2%
Sales Were Flat	29.3%

If Sales Increased 1990-1991, How Large Was Increase?		If Sales Decreased 1990-1991, How Large Was Decrease?	
Less than 5%	14.3%	Less than 5%	21.1%
5-10%	28.6%	5-10%	52.6%
11-20%	28.6%	11-20%	15.8%
21-30%	14.3%	21-30%	5.3%
31-50%	5.7%	31-50%	0%
More than 50%	5.7%	More than 50%	0%

Perception Index



Comments by Printers

- Very unstable; [we have] low profit margins because of price cutting.
- Eastern Iowa is healthy.
- New business startups are down, established business [is] cautious; the market is flooded with printers.
- Large sheetfed and web printers must seek business in other regions.
- Specialty printing will always be around, though desktop is eroding job printing. Survival motto: adjust and overcome.
- We are discovering the need to be creative in finding/servicing new markets.